

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERMANENT ADDITION OF USPS CONNECT
LOCAL MAIL PRICE CATEGORY TO THE MARKET
DOMINANT PRODUCT LIST

Docket No. MC2023-12

**UNITED STATES POSTAL SERVICE REVISED REQUEST TO CONVERT
USPS CONNECT LOCAL MAIL TO A PERMANENT OFFERING**
(November 9, 2022)

Pursuant to 39 U.S.C. § 3642, 39 C.F.R. Part 3040, Subpart B, and 39 C.F.R. § 3045.18, the United States Postal Service hereby requests to convert the experimental product USPS Connect™ Local Mail into a permanent offering on the Mail Classification Schedule, effective January 22, 2023.

On November 10, 2021, the Postal Service filed a notice in Docket No. MT2022-1 announcing its intent to conduct a market test of an experimental product called USPS Connect™ Local Mail and demonstrated that the market test would comply with applicable legal requirements. The Commission found that the market test met the requirements of 39 U.S.C. § 3641 and 39 C.F.R. part 3045 and authorized the market test to proceed in Order No. 6080 on January 4, 2022. On October 11, 2022, the Postal Service filed a request to convert USPS Connect™ Local Mail to a permanent price category under First-Class Mail Flats.¹ The Commission dismissed this request without prejudice on October 17, 2022.²

¹ See Docket No. MC2023-12, United States Postal Service Request to Convert USPS Connect Local Mail to a Permanent Offering, October 11, 2022.

² See Docket No. MC2023-12, Order Dismissing Without Prejudice Postal Service's Request to Convert USPS Connect Local Mail Market Test to a Permanent Offering, October 17, 2022 (Order No. 6301).

The Postal Service initially introduced its test of USPS Connect™ Local Mail in Texas to align with its nationwide rollout of the corresponding packages product, USPS Connect™ Local. By the end of the second quarter, which ended March 31, 2022, USPS Connect™ Local Mail was offered as a market test product in 11 states. Another 16 states, plus Washington, D.C., were added in the third quarter; 23 more were added in the fourth quarter. Once the initial phased national rollout was complete, USPS Connect™ Local Mail was offered in all 50 states and the District of Columbia.

Now that the market test has proved successful, the Postal Service has determined to add USPS Connect™ Local Mail into the Mail Classification Schedule as a price category under section 1115 (Market Dominant Products: First-Class Mail: First-Class Mail Flats).³ As in the market test phase, USPS Connect™ Local Mail will provide customers same-day or next-day options for local delivery of documents. The Postal Service plans to continue to offer USPS Connect™ Local Mail to individual and business customers through Click-N-Ship as well as the USPS API. Customers using USPS Connect™ Local Mail will be able to enter First-Class Mail mailpieces close to their final destinations at certain designated entry units or, in select locations, will be able to arrange pick-up of mailpieces by their USPS carrier in line-of-travel. Documents accepted by the Postal Service at participating designated entry units by 7 a.m. each day will be eligible for same-day delivery, while mailpieces received after 7 a.m. at participating designated entry units or by carrier pick-up in line-of-travel will be delivered the following day. Local induction has simplified implementation throughout the market test and allows the Postal Service to avoid end-to-end transportation costs, making it

³ This portion of the request is intended to satisfy 39 C.F.R. § 3040.131(a) and (c).

possible to offer the product for a flat price of \$2.95 while covering attributable costs associated with the product. The Postal Service views USPS Connect™ Local Mail, part of the USPS Connect™ suite of products, as a key component of the core mission of our *Delivering for America* strategic plan. USPS Connect™ Local Mail was designed for locally-focused businesses such as law firms, real estate-related companies, and medical offices, and offers value to these businesses by giving them access to the Postal Service's existing delivery infrastructure.

Along with the request to add USPS Connect™ Local Mail to the Market Dominant Product List as a price category within First-Class Mail Flats, the Postal Service intends to file changes to accommodate any needed updates to the service performance measurement plan and service standards. The measurement plan will be based on Intelligent Mail Parcel Barcodes (IMpbs), which are currently used for certified mail and certain package services. If necessary, the Postal Service intends to update the First-Class Mail service standards under 39 C.F.R. § 121.1 to accommodate the same-day and next-day delivery targets that accompany this price category.

39 U.S.C. § 3642 and the Commission's implementing rules at 39 C.F.R. Part 3045.18 set forth the conditions for adding a non-experimental product based on an experimental product to the product list. As explained below, USPS Connect™ Local Mail satisfies all of these conditions:

Compliance with 39 C.F.R. § 3045.18(b) Requirements

As required by subsections (b)(1)-(3) of section 3045.18, USPS Connect™ Local Mail will offer the same service as the current experimental product described as USPS

Connect™ Local Mail in Docket No. MT2022-1, with the same distinct costs and market characteristics, and is based on the data collected from the current market test.

Compliance with 39 C.F.R. § 3045.18(c) Requirements

Pursuant to subsection (c) of section 3045.18, the market test and docket number that the proposed non-experimental product or price category is based on is named USPS Connect™ Local Mail and can be found in Docket No. MT2022-1. The relationship between the proposed non-experimental product and market test is one-to-one; this Request seeks to convert the experimental product at the heart of this market test to the permanent product list.

The Postal Service intends to add USPS Connect™ Local Mail to the Flats product of the First-Class Mail class in the Market Dominant section of the Mail Classification Schedule, with a price point of \$2.95 for a flat- or letter-sized mailpiece with a maximum length of 15 inches, a maximum height of 12 inches, a maximum thickness of $\frac{3}{4}$ inch, and a maximum weight of 13 ounces, as set forth in Attachment A to this Request.⁴

As a general rule, new offerings do not have price cap implications, and this is true whether or not the offering was the subject of a market test. As a new offering, USPS Connect™ Local Mail lacks volume history and billing determinants that can be used to calculate a price cap effect, and the Commission does not consider market test data in calculating billing determinants. See, e.g., Docket No. MC2012-31, Adding EDDM-Retail to the Product List, Order No. 1460 (Order Approving Addition of Postal Services to the Mail Classification Schedule Product Lists) (increase from market test

⁴ Attachment A is also intended to satisfy the requirement set forth under 39 C.F.R. § 3040.131(f).

price to price charged when product added to Market Dominant list is not a rate change subject to 39 U.S.C. 3622(d)).

Pursuant to subsection (c)(3) of section 3045.18, the Postal Service assumes that the market for USPS Connect™ Local Mail that has persisted over the course of the market test will continue to grow into the permanent product phase. The Commission's implementing rules require the Postal Service to calculate the total revenue received by the Postal Service from the market test for each fiscal year the market test has been in operation and to provide supporting documentation. At the close of FY 2022, Quarter 2, the USPS Connect™ Local Mail market test, then limited to 11 states, received \$191.75 in revenue. At the close of FY 2022, Quarter 3, the USPS Connect™ Local Mail market test, then expanded to 27 states, received another \$908.60 in revenue. During FY 2022, Quarter 4, USPS Connect™ Local Mail accounted for over 17,000 mailpieces delivered and nearly \$51,000 in additional revenue.

Pursuant to subsection (c)(4) of section 3045.18, the Postal Service has included all data collection reports filed over the course of the market test in Attachment B.

Pursuant to subsection (c)(5) of section 3045.18, the product-specific costs associated with the development of the market test total \$577,837 (a cumulative figure, which includes costs related to receiving and delivering mail during the first two quarters of the market test). As shown below, at the current price point of \$2.95 USPS Connect™ Local Mail covers its attributable costs and contributes to institutional costs, and the continuation of the offering as a permanent price category will allow the Postal Service to recoup its development costs. In addition, attributable costs have been

relatively stable from quarter to quarter. See Table 1 for a quantification of the costs involved in this figure.

Table 1

Description	Individual Costs	# of Items	Total Cost
Developmental Costs			
Envelope Purchases	\$0.14	2,250,000	\$315,000
Administrative Program Labor	N/A	N/A	\$275,084
Attributable			
Total cost of receiving and delivering	N/A ⁵	17,635	\$36,658
Total			\$577,837

In light of all of the above, the Postal Service submits that USPS Connect™ Local Mail meets the criteria for converting a market test to permanent status. A copy of the Governors' resolution authorizing this request is included in Attachment C, pursuant to 39 CFR 3040.131(b).

Finally, pursuant to 39 CFR §§ 3040.131(e) and 3040.132, and in response to the Commission's decision in Order No. 6301, the Postal Service is filing a revised Statement of Supporting Justification, attached to this request as Attachment D. The Statement of Supporting Justification also addresses the market dominant product list change criteria detailed under 39 U.S.C. § 3642(b), including a market power analysis, the application of the postal monopoly, and the additional considerations contained in 39 U.S.C. § 3642(b)(3).

To align with other IT programming changes, the Postal Service aims to implement this new permanent offering on January 22, 2023.

⁵ 373 pieces from Q2 and Q3 assessed at \$2.02 per piece cost and 17,262 pieces from Q4 assessed at \$2.08 cost per piece.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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November 9, 2022

**ATTACHMENT A TO REQUEST
PROPOSED CHANGES TO THE MAIL CLASSIFICATION SCHEDULE**

Part A

Market Dominant Products

1000 MARKET DOMINANT PRODUCT LIST

FIRST-CLASS MAIL*

Single-Piece Letters/Postcards

Presorted Letters/Postcards

Flats

Outbound Single-Piece First-Class Mail International

Inbound Letter Post

* * * * *

1100 First-Class Mail

* * * * *

1115 Flats

1115.1 Size and Weight Limitations

Flats

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	none
and at least one dimension exceeds	11.5 inches	6.125 inches	0.25 inch	
Maximum	15 inches	12 inches	0.75 inch	13 ounces

Letter Shaped Mail Exceeding 3.5 Ounces subject to Flats pricing

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	>3.5 ounces
Maximum	11.5 inches	6.125 inches	0.25 inch	13 ounces

USPS Connect Local Mail

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	none
Maximum	15 inches	12 inches	0.75 inch	13 ounces

Parcels (Keys and Identification Devices)

	Length	Height	Thickness	Weight
Minimum	not applicable			none
Maximum	not applicable			2 pounds

1115.2 Minimum Volume Requirements

		Minimum Volume Requirements
Flats	Single-Piece	none
	Presorted	500 pieces per mailing
	Mixed ADC	500 pieces per mailing
	ADC	500 pieces per mailing
	3-Digit	500 pieces per mailing
	5-Digit	500 pieces per mailing
	USPS Connect Local Mail	none
Keys and Identification Devices		none

1115.3 Price Categories

The following price categories are available for the product specified in this section:

- Automation
 - 5-Digit
 - 3-Digit
 - ADC
 - Mixed ADC

- Presorted
- Single-Piece
- Move Update Assessment Charge
- Flat Round-Trip Mailer
- USPS Connect Local Mail – Next day or same day delivery within a specified service area available to mailers who use specifically authorized postage payment methods and, pursuant to a customer agreement on file with the Postal Service, either enter flats at a designated destination delivery unit (or other equivalent facility) or use carrier line-of-travel pickup.
- Keys and Identification Devices—Payment is due on delivery unless an active Business Reply Mail advance deposit account is used.

1115.4

Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Business Reply Mail (1505.3)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - Insurance (1505.9)
 - Registered Mail (1505.12)
 - Return Receipt (1505.13)
 - Special Handling (1505.18)
- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)
- Full-service Intelligent Mail option: Automation Flats Only
- Seamless Incentive: Automation Flats Only
- Tactile, Sensory, and Interactive Mailpiece Engagement Promotion (February 1, 2022 to July 31, 2022)
- Emerging and Advanced Technology Promotion (March 1, 2022 to August 31, 2022)
- Earned Value Reply Mail Promotion (April 1, 2022 to June 30, 2022)
- Informed Delivery Promotion (August 1, 2022 to December 31, 2022)

1115.5 Prices

Automation Flats

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	ADC (\$)	Mixed ADC (\$)
1	0.555	0.730	0.783	0.891
2	0.755	0.930	0.983	1.091
3	0.955	1.130	1.183	1.291
4	1.155	1.330	1.383	1.491
5	1.355	1.530	1.583	1.691
6	1.555	1.730	1.783	1.891
7	1.755	1.930	1.983	2.091
8	1.955	2.130	2.183	2.291
9	2.155	2.330	2.383	2.491
10	2.355	2.530	2.583	2.691
11	2.555	2.730	2.783	2.891
12	2.755	2.930	2.983	3.091
13	2.955	3.130	3.183	3.291

Presorted Flats

Maximum Weight (ounces)	Presorted (\$)
1	1.000
2	1.200
3	1.400
4	1.600
5	1.800
6	2.000
7	2.200
8	2.400
9	2.600
10	2.800
11	3.000
12	3.200
13	3.400

Single-Piece Flats¹

Maximum Weight (ounces)	Single-Piece (\$)
1	1.160
2	1.360
3	1.560
4	1.760
5	1.960
6	2.160
7	2.360
8	2.560
9	2.760
10	2.960
11	3.160
12	3.360
13	3.560

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

USPS Connect Local Mail

<u>Maximum Weight (ounces)</u>	<u>USPS Connect Local Mail (\$)</u>
<u>13</u>	<u>2.95</u>

Keys and Identification Devices

Maximum Weight (ounces)	Keys and Identification Devices (\$)
1	3.75
2	3.95
3	4.15
4	4.35
5	4.55
6	4.75
7	4.95
8	5.15
9	5.35
10	5.55
11	5.75
12	5.95
13	6.15
1 (pound)	Priority Mail Retail Zone 4 postage plus 0.92
2 (pounds)	Priority Mail Retail Zone 4 postage plus 0.92

Move Update Assessment Charge

Add \$0.08 per assessed piece, for mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, and which cannot demonstrate compliance with Move Update requirements.

Flat Round-Trip Mailer

- a. Flat Round-Trip Mailer service allows a mailer to send a flat-shaped mailpiece to a subscriber at the applicable one (1) ounce Machinable Letter price and pay postage for the return of the contents of that mailpiece at the one (1) ounce Single-Piece Machinable Letter price.

- b. A mailer may either prepay postage for the return mailpiece by using Permit Reply Mail or only pay for mailpieces actually returned by using Business Reply Mail.
- c. Qualifying pieces must contain a standard 12 cm or smaller optical disc.
- d. Pieces weighing no more than two (2) ounces qualify for the one (1) ounce price.
- e. Returned pieces must be picked up by the mailer at designated Postal Service facilities.
- f. Flat Round-Trip Mailers are not subject to prices for:
 - (i) the Nonmachinable Letters price category of Presorted Letters/Postcards, or
 - (ii) the Single-Piece Nonmachinable Letters price category of Single-Piece Letters/Postcards.

Full-service Intelligent Mail Option

Subtract \$0.003 for each automation flat that complies with the requirements for the Full-service Intelligent Mail option.

Seamless Incentive

Subtract \$0.001 for each piece eligible for Seamless Acceptance and prepared under the Full-Service Intelligent Mail option.

Tactile, Sensory, and Interactive Mailpiece Engagement Promotion (February 1, 2022 to July 31, 2022)

Provide a four percent discount on the qualifying postage for First-Class Mail letters, postcards, and flats, and USPS Marketing Mail letters and flats that incorporate scent, sound, visual, textural, dimensional, or other qualifying enhancements. To receive the discount, the qualifying mail must be sent during the established program period by mailers that comply with the eligibility requirements of the program.

Emerging and Advanced Technology Promotion (March 1, 2022 to August 31, 2022)

Provide a two or three percent discount on the qualifying postage for First-Class Mail letters, postcards, and flats, and USPS Marketing Mail letters and flats that are sent during the established program period, and which either include affixed or embedded technology that allows the recipient to engage in a technological experience, or were automatically generated by the recipient's applicable online activities. Mailers will receive a discount based on the complexity of the

technology involved and its perceived benefit to the recipient. Qualifying mail utilizing technology with low barriers to entry will receive a two percent discount, while technology featuring high barriers to entry will receive a three percent discount. To receive the discount, mailers must comply with the eligibility requirements of the program.

Earned Value Reply Mail Promotion (April 1, 2022 to June 30, 2022)

Provide a \$0.02 per piece rebate for each qualifying Business Reply Mail, Courtesy Reply Mail, and Share Mail piece. Qualifying mailpieces must meet program requirements and be placed in the mailstream by the recipient and scanned during the program period. To receive the rebate, registered customers must have distributed a Business Reply Mail, Courtesy Reply Mail, or Share Mail card or envelope, and must comply with all other eligibility requirements of the program. Mailers who have satisfied the Earned Value promotion requirements may apply the credit toward future mailings of First-Class Mail cards, letters, and flats and USPS Marketing Mail letters and flats.

Informed Delivery Promotion (August 1, 2022 to December 31, 2022)

Provide a four percent discount on the qualifying postage for First-Class Mail automation letters, postcards, and flats, and USPS Marketing Mail automation letters and flats that are sent during the established program period, and which incorporate Informed Delivery campaigns as a component of their mailings. To receive the discount, mailers must comply with the eligibility requirements of the program.

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1800 Market Tests

* * * * *

1804 USPS Connect Local Mail

Reference

Docket No. MT2022-1

PRC Order No. 6080, January 4, 2022

Expires

January 8, 2024

ATTACHMENT B TO REQUEST
MARKET TEST QUARTERLY DATA COLLECTION REPORTS

PRC REPORT FY22 Q2

PROGRAM: USPS Connect Local Mail Market Test

LAUNCH DATE FOR MARKET TEST: January 9, 2022

TIME PERIOD OF EVALUATION: January 9, 2022 through March 31, 2022 (includes nationwide data by Area)

DESCRIPTION: USPS Connect Local Mail is a First-Class Mail product focused on local document delivery that accepts payment using Click-N-Ship, requires customers to submit mailpieces at Destination Delivery Units (DDUs) or by carrier pick-up in line-of-travel (LOT), and offers same-day or next-day delivery to such customers.

METRICS:

1) Total USPS Connect Local Mail Revenues, Disaggregated by Geographic Area

USPS Connect Local Mail Revenues		
Geographic Area	Revenue	% Revenue
Atlantic	\$17.70	9.2%
Central	\$0.00	0.0%
Southern	\$174.05	90.8%
WestPac	\$0.00	0.0%
Total	\$191.75	100.0%

Source: Click-N-Ship, Informed Visibility

2) Total USPS Connect Local Mail Volume, Disaggregated by Geographic Area and Acceptance Method

USPS Connect Local Mail Volume				
Geographic Area	Volume	% Volume	Dropped-off	Picked-up
Atlantic	6	9.2%	6	0
Central	0	0.0%	0	0
Southern	59	90.8%	56	3
WestPac	0	0.0%	0	0
Total	65	100.0%	62	3

Source: Click-N-Ship, Informed Visibility

3) Attributable Costs Incurred by USPS Connect Local Mail

The total attributable costs related to the provision of USPS Connect Local Mail during the quarter equal \$138.04.

4) Administrative and Start-Up Costs

The administrative and start-up costs for USPS Connect Local Mail during the quarter equal \$531,584.

PRC REPORT FY22 Q3

PROGRAM: USPS Connect Local Mail Market Test

LAUNCH DATE FOR MARKET TEST: January 9, 2022

TIME PERIOD OF EVALUATION: April 1, 2022 through June 30, 2022 (includes nationwide data by Area)

DESCRIPTION: USPS Connect Local Mail is a First-Class Mail product focused on local document delivery that accepts payment using Click-N-Ship, requires customers to submit mailpieces at Destination Delivery Units (DDUs) or by carrier pick-up in line-of-travel (LOT), and offers same-day or next-day delivery to such customers.

METRICS:

1) Total USPS Connect Local Mail Revenues, Disaggregated by Geographic Area

USPS Connect Local Mail Revenues		
Geographic Area	Revenue	% Revenue
Atlantic	\$315.65	34.7%
Central	\$2.95	0.3%
Southern	\$188.80	20.8%
WestPac	\$401.20	44.2%
Total	\$908.60	100.0%

Source: Click N Ship, Informed Visibility

2) Total USPS Connect Local Mail Volume, Disaggregated by Geographic Area and Acceptance Method

USPS Connect Local Mail Volume				
Geographic Area	Volume	% Volume	Dropped-off	Picked-up
Atlantic	107	34.7%	100	7
Central	1	0.3%	1	0
Southern	64	20.8%	46	18
WestPac	136	44.2%	121	15
Total	308	100.0%	268	40

Source: Click N Ship, Informed Visibility

3) Attributable Costs Incurred by USPS Connect Local Mail

The total attributable costs related to the provision of USPS Connect Local Mail during the quarter equal \$634.38.

4) Administrative and Start-Up Costs

The administrative and start-up costs for USPS Connect Local Mail during the quarter equal \$45,500.

PRC REPORT FY22 Q4

PROGRAM: USPS Connect Local Mail Market Test

LAUNCH DATE FOR MARKET TEST: January 9, 2022

TIME PERIOD OF EVALUATION: July 1, 2022 through September 30, 2022 (includes nationwide data by Area)

DESCRIPTION: USPS Connect Local Mail is a First-Class Mail product focused on local document delivery that accepts payment using Click-N-Ship, requires customers to submit mailpieces at Destination Delivery Units (DDUs) or by carrier pick-up in line-of-travel (LOT), and offers same-day or next-day delivery to such customers.

METRICS:

1) Total USPS Connect Local Mail Revenues, Disaggregated by Geographic Area

USPS Connect Local Mail Revenues		
Geographic Area	Revenue	% Revenue
Atlantic	\$85.55	0.2%
Central	\$38.35	0.1%
Southern	\$50,622.00	99.4%
WestPac	\$177.00	0.3%
Total	\$50,922.90	100.0%

Source: Click N Ship, Informed Visibility

2) Total USPS Connect Local Mail Volume, Disaggregated by Geographic Area and Acceptance Method

USPS Connect Local Mail Volume				
Geographic Area	Volume	% Volume	Dropped-off	Picked-up
Atlantic	29	0.2%	25	4
Central	13	0.1%	12	1
Southern	17,160	99.4%	17,021	139
WestPac	60	0.3%	50	10
Total	17,262	100.0%	17,108	154

Source: Click N Ship, Informed Visibility

3) Attributable Costs Incurred by USPS Connect Local Mail

The total attributable costs related to the provision of USPS Connect Local Mail during the quarter equal \$35,904.96.

4) Administrative and Start-Up Costs

The administrative and start-up costs for USPS Connect Local Mail during the quarter equal \$13,000.

**ATTACHMENT C TO REQUEST
RESOLUTION OF THE GOVERNORS
OF THE UNITED STATES POSTAL SERVICE**

**RESOLUTION OF THE GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE**

Resolution No. 22-6

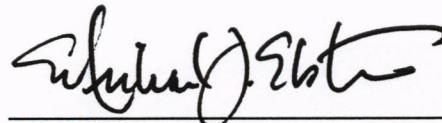
**Conversion of USPS Connect Local Mail Market Test
into a Permanent Offering Listed on the Mail Classification Schedule**

RESOLVED:

Pursuant to Section 3642 of Title 39, United States Code, the Postal Service shall file a request with the Postal Regulatory Commission to convert the USPS Connect Local Mail market test into a permanent offering listed on the mail classification schedule, with a price point of \$2.95 for an envelope up to 12" x 15", with thickness less than $\frac{3}{4}$ ".

Postal management is directed to provide the required public notice and to file with the Postal Regulatory Commission the mail classification changes, and other supporting documents, in accordance with Part 3045 of Title 39, Code of Federal Regulations.

The foregoing Resolution was adopted by the Governors, and takes effect, on October 4, 2022.



Michael J. Elston
Secretary of the Board of Governors

**ATTACHMENT D TO REQUEST
STATEMENT OF SUPPORTING JUSTIFICATION**

Statement of Supporting Justification

I, Krista Becker, Director of Product Management for Mailing Services, sponsor this Request that the Postal Regulatory Commission add USPS Connect™ Local mail as a new price category in the First-Class Mail Flats product. This statement supports the Postal Service Request by providing the information required by each applicable subsection of 39 C.F.R. § 3040.132, as indicated below. I attest to the accuracy of the information contained herein.

(a) Explain the reason for initiating the docket and explain why the change is not inconsistent with the applicable requirements of this part and any applicable Commission directives and orders;

The United States Postal Service is choosing to convert USPS Connect™ Local Mail to a permanent price category for a number of reasons. The product has demonstrated a strong growth trajectory during the market test phase.¹ In addition, this offering is a key component of the USPS Connect™ suite of products and the Postal Service views it as an important part of its strategy going forward. Namely, the goal of USPS Connect™ is to better serve small and local businesses in a way that increases revenue, creates efficiencies, and improves the Postal Service brand. As such, the market test has served its purpose, demonstrating the commercial viability of USPS Connect™ Local Mail as well as its appropriate fit within the Postal Service's existing suite of offerings. The Postal Service also believes customers will be more willing to plan their workflows around USPS Connect™ Local Mail once it becomes a permanent offering.

As demonstrated below, the change complies with applicable statutory provisions and applicable Commission directives and orders.

¹ USPS Connect™ Local Mail accounted for 65 mailpieces in the second quarter of 2022, 308 in the third quarter, and over 17,000 in the fourth quarter.

(b) Explain why, as to market dominant products, the change is not inconsistent with the policies and the applicable criteria of chapter 36 of title 39 of the United States Code;

USPS Connect™ Local Mail is properly classified as a market dominant price category under chapter 36 of title 39 of the United States Code and is consistent with the applicable criteria of the chapter. This is because, in current circumstances, it is most reasonable to conclude that the Postal Service exercises “sufficient market power that it [could] effectively set the price... substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” See 39 U.S.C. § 3642(b)(1). As explained more fully below, firms offering similar products are distinguishable to a sufficient degree that the Postal Service believes that USPS Connect™ Local Mail currently operates largely in a distinct market unto itself. Moreover, and as discussed further below, USPS Connect™ Local Mail is currently subject to the letter monopoly, and hence must be categorized as market dominant for that reason.

Additionally, USPS Connect™ Local Mail advances the objectives set forth under 39 U.S.C. § 3622(b). In support of 39 U.S.C. § 3622(b)(1) (“To maximize incentives to reduce costs and increase efficiency.”), USPS Connect™ Local Mail streamlines the delivery of certain types of local mail by encouraging customers to drop mail intended for local delivery directly at designated entry units. Since pieces are entered at local delivery units, the Postal Service saves on operational costs, such as work hours and transportation costs, and customers obtain faster service and same-day or next-day delivery.² It likewise creates predictability and stability in rates (39 U.S.C. § 3622(b)(2)) by setting forth a flat price of \$2.95 for any letter- or flat-shaped piece up to 13 ounces. As with any market dominant product, changes to that price will be subject to regulatory constraints and approval, providing the same level of predictability and

² The attributable cost for USPS Connect™ Local Mail is \$2.08 per piece. As a point of comparison, Priority Mail carried an attributable cost to the Postal Service of \$6.306 in Fiscal Year 2021. Priority Mail Express carried an attributable cost to the Postal Service of \$10.719 per piece in Fiscal Year 2021. ACR2021 USPS-FY21-1 FY2021 Public Cost and Revenue Analysis (PCRA) Report, filed 11/29/2021.

stability as the public currently expects from other First-Class Mail categories. USPS Connect™ Local Mail also enhances the service standards (39 U.S.C. § 3622(b)(3)) for First-Class Mail by adding a same-day or next-day delivery option, enhancing the value of postal services to end customers and improving speed and frequency of local deliveries, in service of postal customers.³ Finally, USPS Connect™ Local Mail is designed in a way that enhances Postal Service revenues and helps assure financial stability (39 U.S.C. § 3622(b)(5)); USPS Connect™ Local Mail is offered at a price of \$2.95 per piece, with an estimated attributable cost of \$2.08 per piece, ensuring healthy cost coverage for the price category. Moreover, it has the potential to capture as-yet untapped mail volumes by addressing a gap in current offerings, same-day and next-day local delivery, which the Postal Service did not previously offer within First-Class Mail.⁴ The Postal Service projects that USPS Connect™ Local Mail could raise as much as \$8.5 million per year in revenue by Fiscal Year 2026, leading to a contribution of over \$2 million.⁵

The criteria set forth under 39 U.S.C. § 3642(b) support the proposition that USPS Connect™ Local Mail should be treated as a market dominant product under current circumstances. Because of its characteristics, USPS Connect™ Local Mail should be treated at this time as a market dominant price category according to the market power analysis required under 39 U.S.C. § 3642(b)(1). While some firms offer same-day and next-day delivery services, those offerings are distinguishable for a number of reasons, which means that USPS Connect™ Local Mail is not a reasonable substitute for those services. As such, in a sense, USPS

³ The Postal Service intends to file an update to the First-Class Mail service standards under 39 C.F.R. § 121.1 to accommodate same-day and next-day delivery targets. The Postal Service is also planning an update to its service performance measurement plan based on Intelligent Mail Parcel Barcodes (IMpbs), which are currently used for certified mail and certain package services.

⁴ The Postal Service conducted an IBISWorld search prior to commencing the USPS Connect™ Local Mail market test that indicated consumers would spend \$133.8 million on courier and local delivery in 2022 and \$162.5 million by 2027.

⁵ The Postal Service arrived at this estimate by modelling USPS Connect™ Local Mail growth trends after the sales volume displayed by USPS Connect™ Local packages during that offering's introductory months and Every Door Direct Mail (EDDM) during its initial 3 years.

Connect™ Local Mail could be considered as currently occupying its own distinct sub-market market within the broader market for expedited letter mail service – filling a gap in that market by offering a type of service other providers do not.

The closest comparison would be local courier and messenger services. Like USPS Connect™ Local Mail, these services are locally focused, catering to customers within a relatively finite local geography. They offer same-day (sometimes as fast as one-hour or 30-minute) express delivery of a variety of items, often with on-demand, direct point-to-point service and customized pickup and drop-off. As a result of these services being more responsive, rapidly available, and customizable, they are priced at a much higher price point than USPS Connect™ Local Mail. As example, a local courier service in one of the test markets lists local delivery prices up to 4 miles from \$10.75 to \$19.00. Other sources indicate that most local couriers cost \$1.50-\$1.70 per mile and that most intra-city deliveries have minimum charges between \$10-\$20.⁶ USPS Connect™ Local Mail differs in pricing structure and overall cost; because the service relies on customers dropping their mailpieces at designated entry units or conforming to carriers' existing line-of-travel, the Postal Service offers a much lower flat rate (\$2.95) than local couriers can offer. Thus, USPS Connect™ Local Mail is quite distinct from most local courier services, having stricter product parameters, no on-demand or customization options, and no rapid, direct point-to-point services.

The next closest comparable services are the next-day delivery services offered by larger national companies such as UPS and FedEx. Crucially, these products do not offer a same-day option that matches USPS Connect™ Local Mail. In addition, both FedEx and UPS charge approximately \$30-35 for a guaranteed next day delivery of a document for a local delivery by 4:30 pm. FedEx offers delivery by 8:30 am for approximately \$75, but this earlier delivery time does not compare to the later delivery times offered by USPS Connect™ Local

⁶ See www.costhowmuch.com/ps/courier-service.htm for details.

Mail. FedEx does not have a non-guaranteed delivery rate for locally sent documents, but UPS does; UPS charges approximately \$12-\$15 for a non-guaranteed delivery date. This non-guaranteed next-day delivery offers a closer comparison to USPS Connect™ Local Mail because USPS Connect™ Local Mail does not guarantee on-time delivery either. The \$12-\$15 price, as compared to the Connect Local Mail price of \$2.95, reflects the fact that the characteristics of USPS Connect™ Local Mail differ from its competitors and allows the Postal Service to provide service at a much lower price point, potentially allowing the Postal Service to raise prices significantly without risk of losing a significant level of business to other firms offering similar products.

While this price differential is not, alone, evidence of market power, USPS Connect™ Local Mail has other distinguishing features that contribute to a determination that market power exists. USPS Connect™ Local Mail is purely a local delivery option, which simplifies sorting and delivery compared to national offerings from FedEx and UPS. In contrast, the next-day delivery services offered by larger companies are focused on much larger, regional and national-scale geographic markets, as opposed to purely local document deliveries. USPS Connect™ Local Mail simply does not address these larger geographic markets, because it only offers local delivery options. As such, USPS Connect™ Local Mail is not a reasonable substitute for customers seeking a service to send documents outside of their local delivery area. The limited geographic reach of USPS Connect™ Local Mail's service, as compared to the comparable services offered by competitors, is likewise reflected in the pricing for those services. USPS Connect™ Local Mail has been priced at \$2.95 throughout the market test and comfortably covers its attributable costs at such price. Given the differences between USPS Connect™ Local Mail and these other services, both in terms of price and service options, the Postal Service considers this product to currently meet the standard of market dominance under

Section 3642. In addition, as the Postal Service notes in subsection (e) to this Statement of Supporting Justification, USPS Connect™ Local Mail is likely covered by the postal monopoly.

Finally, USPS Connect™ Local Mail promotes adequate and efficient postal services, as required under 39 U.S.C. § 3661. Since it involves the delivery of letters and other printed matter, USPS Connect™ Local Mail fits squarely in the definition of a “postal service” under 39 U.S.C. § 102(5). Moreover, Connect Local Mail represents an expansion of the services offered to local customers to further meet the public’s needs for cost-effective delivery solutions. The Postal Service believes that this will lead to more engagement by local customers with the Postal Service, strengthening our relationship with the communities we serve, and ultimately enhancing our ability to serve the public.

(c) Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. 3633;

Not applicable, as the Postal Service proposes to add USPS Connect™ Local Mail to the market dominant product list as a price category under First-Class Mail.

(d) Verify that the change does not classify as competitive a product over which the Postal Service exercises sufficient market power that it can, without risk of losing a significant level of business to other firms offering similar products:

(1) Set the price of such product substantially above costs;

(2) Raise prices significantly;

(3) Decrease quality; or

(4) Decrease output.

Not applicable, as the Postal Service proposes to add USPS Connect™ Local Mail to the market dominant product list as a price category under First-Class Mail. However, see the

Postal Service's response under subsection (b) to this Statement of Supporting Justification for an explanation of the market power currently exercised by the Postal Service over this market.

(e) Explain whether or not each product that is the subject of the request is covered by the postal monopoly as reserved to the Postal Service under 18 U.S.C. 1696 subject to the exceptions set forth in 39 U.S.C. 601;

USPS Connect™ Local Mail is designed for the local delivery of documents, fitting into the definition of "letter" under 39 C.F.R. § 310.1 as a "message directed to a specific person or address and recorded in or on a tangible object." A private express established for the conveyance of such documents for compensation at the established price point would be prohibited under 18 U.S.C. 1696(a). Therefore, USPS Connect™ Local Mail, like the other price categories under First-Class Mail, is covered by the postal monopoly reserved to the Postal Service under 18 U.S.C. 1696.

In this regard, most documents that are eligible for USPS Connect™ Local Mail are not excepted from the postal monopoly under the terms set forth in 39 U.S.C. 601. Under 39 U.S.C. 601(b)(1), USPS Connect™ Local Mail does not require the sender to pay "at least the amount equal to 6 times the rate then currently charged for the 1st ounce of a single-piece first class letter" (USPS Connect™ Local Mail costs \$2.95 per piece while the amount charged for the 1st ounce of a single-piece first class letter is currently \$0.60). USPS Connect™ Local Mail features a maximum weight of 13 ounces, meaning that most eligible mailpieces would not qualify for an exception to the Private Express Statutes under 39 U.S.C. 601(b)(2) either. Finally, none of the terms of sections 310.1 and 320.2–320.8 of title 39 of the Code of Federal Regulations (as applied through 39 U.S.C. 601(b)(3)) provide an exception to the postal monopoly that is applicable here. Although there is an exception for extremely urgent letters under 39 C.F.R. § 320.6 that overlaps with the aims of USPS Connect™ Local Mail, critical entry times for USPS Connect™ Local Mail do not align with the requirements of 39 C.F.R. §

320.6(b)(1), as that section requires mail dispatched by noon to be delivered “within 6 hours.” USPS Connect™ Local Mail only targets same-day delivery if it is received by the critical entry time of 7 a.m., indicating that it does not meet the terms of the extremely urgent exception under 39 C.F.R. § 320.6.

For these reasons, along with the market power analysis described in subsection (b) above, the Postal Service believes USPS Connect™ Local Mail should be classified as a market dominant offering.

(f) Provide a description of the availability and nature of enterprises in the private sector engaged in the delivery of the product;

As explained in the Postal Service’s response to CIR No. 1 during the MT2022-1 docket, the Postal Service views potential substitutes for USPS Connect™ Local Mail to be local couriers and messengers delivering documents via bicycle or automobile, FedEx overnight and/or 2-day deliveries, UPS overnight delivery service and/or 2-day deliveries, and smaller companies that deliver documents on an expedited basis.

Again, it is important to note that USPS Connect™ Local Mail is not designed to directly compete with these services and is not a direct substitute for any of them. As explained in the Postal Service’s notice filing, USPS Connect™ Local Mail is designed to leverage the Postal Service’s existing delivery network, which distinguishes it from both local couriers and express delivery services, such as UPS and FedEx. Because it is predicated on drop-off at designated entry units or carrier line-of-travel pickup within certain time windows, USPS Connect™ Local Mail does not offer the responsiveness, direct point-to-point delivery, or on-demand services that local courier services provide. And, unlike current offerings from FedEx and UPS, USPS Connect™ Local Mail is locally focused, which limits the geographic markets served and places it in a different price category from existing express delivery options.

(g) Provide any information available on the views of those who use the product on the appropriateness of the proposed modification;⁷

Financial institutions, such as local banks and mortgage companies, use USPS Connect™ Local Mail to send correspondence to customers, such as offers for refinancing credit cards and mortgages, offers for mortgage loans, and title paperwork. One such financial institution indicates that USPS Connect™ Local Mail is much safer than having employees make document deliveries because USPS letter carriers are in a marked vehicle and in uniform, rather than making the delivery from an unmarked car.

One mortgage company informed the Postal Service that they use USPS Connect™ Local Mail over an express service because of the lower price point for USPS Connect™ Local Mail, and that USPS Connect™ Local Mail sometimes offered faster delivery as well.

Physicians indicated that they are using USPS Connect™ Local Mail to send health records to their patients. These customers stated they were less concerned about confidentiality of patient records with a Postal Service employee than they would have been using a local courier.

Many of the Postal Service's USPS Connect™ Local Mail customers who require overnight delivery stated they previously resorted to local couriers or FedEx for such deliveries. They claim that the price point for USPS Connect™ Local Mail offers a big cost savings for them, and that they really appreciate the offering.

Mailers also enjoyed the fact that USPS Connect™ Local Mail is a trackable mail service. Attorneys indicated that USPS Connect™ Local Mail's tracking scans offered a more complete assurance of delivery than the signature of the recipient that they received from a

⁷ The Postal Service's response to this section is based upon Postal Service sales staff questionnaires and requests for feedback that have been gathered from USPS Connect™ Local Mail market test participants.

courier. One attorney stated USPS Connect™ Local Mail helped them establish chain of custody for their documents.

(h) Provide a description of the likely impact of the proposed modification on small business concerns; and

Under the Small Business Act, a small-business concern is “one which is independently owned and operated and which is not dominant in its field of operation.” 15 U.S.C. § 632(a)(1). As a price category, USPS Connect™ Local Mail was designed to provide a tremendous benefit to businesses whose customers are local to them. Since the Postal Service can offer low prices for local delivery for businesses who are able to drop their mailpieces off at a designated entry unit, this product is designed for small businesses such as small law practices, doctors’ offices, and real estate firms.

In addition, USPS Connect™ Local Mail will not create an unfair or inappropriate advantage for the Postal Service compared to other small businesses in this space, such as local courier services. Local courier services typically build in pick-up on demand services, which justify a higher price and differentiate their services from USPS Connect™ Local Mail. USPS Connect™ Local Mail is in line-of-travel for pick-up and drop-off; there is no direct end-to-end transport offered by USPS Connect™ Local Mail, and it is therefore not as responsive or customizable as a local courier service. In many ways, USPS Connect™ Local Mail also offers same-day delivery on a more limited basis than a local courier service. It is better suited to businesses who regularly schedule local deliveries (such as mailing bills to their customers), allowing them to plan to meet the requirements for USPS Connect™ Local Mail (e.g., drop-off at a designated entry unit by the Critical Entry Time, mail prepared in time for carrier pick-up in their line-of-travel). It is not as well suited to the type of ad hoc document delivery that courier services specialize in. In fact, one Postal Service sales representative received an inquiry from a courier service inquiring about using USPS Connect™ Local Mail for some of its own

customers, indicating USPS Connect™ Local Mail may be a complementary service, instead of a direct competitor.

- (i) Include such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposed modification.*

As mentioned elsewhere in this Statement of Supporting Justification, the Postal Service views USPS Connect™ Local Mail as a complement to our other USPS Connect™ offerings and as a way to address an identified need for local, low-cost same-day or-next day delivery. The goal of the USPS Connect™ suite of products is to help local businesses stay competitive on mailing and shipping costs, and USPS Connect™ Local Mail offers a way for small businesses who send documents and bills to local customers to reach such customers on a same-day or next-day basis. This is a market that lacks a low-cost option, since FedEx and UPS focus on nationwide delivery, and local couriers offer a personalized, door-to-door level of service. Similarly, USPS Connect™ Local Mail augments the Postal Service's current offerings by offering a same-day or next-day First-Class Mail offering with tracking. The Postal Service offers Priority Mail and Priority Mail Express as competitive products that fill a similar niche but, again, these are not locally focused options, and their pricing reflects this difference.